



45th
Annual
Report

INTERNATIONAL SHOE COMPANY

1956



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45th

ANNUAL REPORT

INTERNATIONAL



Summary Description of the Business of the International Shoe Company, The Florsheim Shoe Company and Subsidiary Corporations

INTERNATIONAL SHOE COMPANY

PRODUCTION:

The Company manufactures a complete line of men's, women's and children's shoes.

The Company also manufactures, for its own use in the manufacture of shoes, upper leather, sole leather, rubber heels, rubber soles, cotton cloth for linings, chemicals, cements, leather welting and other items.

DISTRIBUTION AT WHOLESALE LEVEL:

Through its selling divisions, the Company distributes the shoes it produces throughout the United States and its possessions and to foreign countries where satisfactory trade relations can be carried on under existing government restrictions.

DISTRIBUTION AT RETAIL LEVEL:

At the retail level, the greater part of the Company's shoes is distributed through more than 30,000 independent retailers. A part goes through large and small chain organizations and through retail outlets operated by the Company.

Through its subsidiary, Shoenterprise Corporation, the Company finances the setting up of independently owned and operated retail shoe outlets in locations where the Company's distribution is unsatisfactory.

THE FLORSHEIM SHOE COMPANY:

The Florsheim Shoe Company, a division, manufactures and distributes Florsheim shoes for men and women.

SUBSIDIARY CORPORATIONS:

This consolidated report includes the affairs and accounts of subsidiary corporations, all of which are engaged in businesses directly related to that of the Company. Four of these subsidiaries are of significant size:

SAVAGE SHOES LIMITED (Canadian Subsidiary), which manufactures Savage shoes and distributes them throughout Canada.

SHOENTERPRISE CORPORATION

TWELFTH-DELMAR REALTY COMPANY which owns and operates the Central Terminal Building in St. Louis, Missouri, with International Shoe Company as the principal tenant.

BURK BROTHERS which operates one tannery in Philadelphia, Pennsylvania.

SHOE COMPANY...

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DIRECTORS

EDGAR S. BLAND	ANDREW W. JOHNSON	HENRY H. RAND
CARL E. BRUECKMANN	J. LEE JOHNSON	NORFLEET H. RAND
HAROLD M. FLORSHEIM	LEE C. MCKINLEY	REZIN H. RICHARDS
IRVING S. FLORSHEIM	ROBERT O. MONNIG	RICHARD O. RUMER
BYRON A. GRAY	HAROLD F. OYAAS	LAURENCE M. SAVAGE
CLEMENCE L. HEIN	OLIVER F. PETERS	ALBERT V. WHEELER

OFFICERS

BYRON A. GRAY <i>Chairman of the Board</i>	ROBERT O. MONNIG <i>Vice-President and Comptroller</i>	MAURICE R. CHAMBERS <i>Vice-President</i>
HENRY H. RAND <i>President</i>	J. LEE JOHNSON <i>Vice-President</i>	CARL E. BRUECKMANN <i>Secretary and Assistant Treasurer</i>
ANDREW W. JOHNSON <i>Vice-President and Treasurer</i>	REZIN H. RICHARDS <i>Vice-President</i>	WARREN P. METZ <i>Assistant Secretary</i>
OLIVER F. PETERS <i>Vice-President</i>	HAROLD M. FLORSHEIM <i>Vice-President</i>	WILLIAM J. BANKS <i>Assistant Comptroller</i>
	LEE C. MCKINLEY <i>Vice-President</i>	

GENERAL OFFICES

1509 Washington Ave.
St. Louis 3, Mo.

TRANSFER AGENTS

Manufacturers Trust Company
New York, N. Y.

Mercantile Trust Company
St. Louis, Mo.

REGISTRARS

Guaranty Trust Company
New York, N. Y.

St. Louis Union Trust Company
St. Louis, Mo.

The Annual Meeting of Stockholders will be held at 10:00 a.m. on
February 25, 1957 at the Company's General Offices,
1509 Washington Avenue, St. Louis, Missouri

HIGHLIGHTS of the YEAR

1956

Fiscal Years Ended November 30

	1956	1955	Increase Decrease	Per Cent
Net Sales	\$266,813,539	\$262,413,803	\$4,399,736	2
Civilian	264,347,539	258,379,047	5,968,492	2
Military	2,466,000	4,034,756	1,568,756	39
Income before Federal and Canadian Income Taxes	22,123,369	21,847,252	276,117	1
Federal and Canadian Taxes on Income	11,245,588	11,448,471	202,883	2
*Net Income	11,849,497	10,414,006	1,435,491	14
Percent of Net Sales	4.4	4.0		
Per Share	3.53	3.10	.43	14
Net income of \$11,849,497 and \$3.53 per share includes two nonrecurring items amounting to \$1,101,325 or 33 cents per share.				
Total Dividends Paid	8,061,847	8,095,087	33,240	—
Dividends per Share	2.40	2.40		
Income Retained	3,787,650	2,318,919	1,468,731	63
Current Assets	130,642,789	123,538,008	7,104,781	6
Current Liabilities	31,252,387	27,222,650	4,029,737	15
Working Capital	99,390,402	96,315,358	3,075,044	3
Working Capital Ratio	4.2	4.5		
Employees' Notes Receivable	2,494,559	2,814,593	320,034	11
Customers' Loans Receivable	6,706,165	6,032,620	673,545	11
Long-Term Debt	44,414,583	44,655,000	240,417	1
Net Physical Properties	37,053,522	36,799,896	253,626	1
Maintenance and Repairs	4,989,125	4,450,365	538,760	12
Depreciation	3,095,614	2,946,305	149,309	5
Accumulated Depreciation	40,358,584	41,014,628	656,044	2
Production in Pairs	53,433,683	52,313,612	1,120,071	2
Civilian	53,084,713	51,599,952	1,484,761	3
Military	348,970	713,660	364,690	51

*After adjustment for minority interests.



BYRON A. GRAY, Chairman of the Board, and HENRY H. RAND, President

ANNUAL MESSAGE

from the Chairman of the Board and President ...to Our Stockholders

Results of our Company's operations for the fiscal year 1956 are highlighted on the opposite page. Here are brief comments on these and other significant Company matters. As you page through this report you will find more complete information on these and other subjects.

Consolidated net sales of \$266,813,539 were \$4,399,736 greater than the sales for the prior year.

Consolidated net income of \$3.53 per share included two nonrecurring amounts. Before inclusion of these nonrecurring items, net income amounted to \$3.20 per share. 1955 net income was \$3.10 per share.

Dividends of \$2.40 per share were paid in 1956, the same as in the prior year. The 183rd consecutive dividend on our stock was paid on January 1, 1957.

Our Company's production for 1956 was approximately 2% greater than for 1955. Industry production will show about the same percentage increase.

Information reaching us indicates that the total dollar value of nationwide retail shoe sales will probably show about a 5% increase over the prior year.

Shoe prices were advanced on April 1, 1956, by the Company's St. Louis sales divisions when the fall lines were presented. No further change was made when the spring 1957 lines were brought out in October. In addition to a rising tendency in material prices our costs of production were affected by the increase in wage rates on April 1 of approximately 3% as provided for in the parent company's union contract concluded in the fall of 1955. Addi-

tionally, the dollar legal minimum wage which went into effect on March 1 tended to increase our costs.

The Florsheim Shoe Company completed another good year showing steady growth in sales and continued good profits. On October 31, The Florsheim Shoe Company corporate entity was liquidated. Since November 1, this company has been operating as a division. No change whatever was made in The Florsheim Shoe Company as a separate business enterprise. The same responsible executives continue as before with full power to carry on their business and do all things necessary to continue this very successful company.

Savage Shoes Limited, Canadian subsidiary, showed a rate of sales growth even greater than the Canadian shoe industry, which in turn reflects the fast-growing economy of our neighbor to the north.

The Bryan, Texas, plant manufacturing composition heelng and soling materials turned in a very satisfactory result for the year, and it is expected that this plant will make a regular contribution to Company profits.

Several important moves were begun during the year which will increase the efficiency of our distribution. Consolidation of the non-sales functions of our general line sales divisions and the introduction of high-speed data processing equipment in the areas of inventory control, procurement and production scheduling will result in improved service to our customers and substantial savings in our costs of doing business.

Shoenterprise Corporation's business continues to grow. The operation of this subsidiary yearly becomes more meaningful in the affairs of the Company. The almost revolutionary change taking place in the distribution of all kinds of merchandise at the retail level adds increasing importance to the establishment of the right kind of retail outlets for our shoes.

Major uncertainties which have appeared on the international scene raise questions as to the eco-

nomic outlook. Barring the outbreak of a major conflict, it would appear that our national economy has been built to a point of adequacy in almost all areas. In fact, indications of overcapacity begin to appear in industries which have had difficulty in supplying the demand for their products since World War II.

More than adequate capacity is a well-known characteristic of the shoe industry. Sharp competition has been the daily fare of the members of this industry for many years. This has made for sound, wholesome growth on the part of the successful manufacturer and distributor.

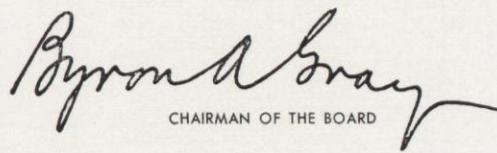
There is some indication that with the catching up on the part of many consumers in their needs for homes, automobiles, home appliances and other heavy goods products, the soft goods industries, and particularly the shoe industry, may enjoy a slightly greater share of the consumer's dollar.

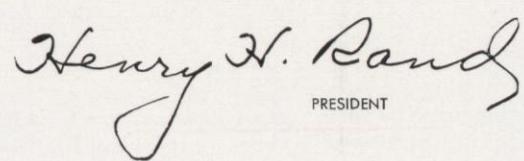
In addition to the international tension, there is concern about the tight money situation with its widespread effects, ranging all the way from reduced capital expenditures by industry on plant and equipment to lower consumer expenditures for the many items which are purchased today by use of consumer credit. If the economy is not disturbed or completely upset by one of these situations, there is general agreement that 1957 should be a good business year, probably exceeding 1956.

Our Company's results for the year 1957 should continue to show the improvement which your management confidently expects from the many moves begun during the past year and preceding ones to strengthen the Company and improve its position in the very competitive market in which it operates. 1956 was the 4th consecutive year in which the Company's net income exceeded that of the prior year. We believe 1957 will continue this trend.

We wish to thank our many good customers, our capable employees and our loyal stockholders for their continued cooperation during the year just closed.

FOR THE BOARD OF DIRECTORS


Byron A. Bray
CHAIRMAN OF THE BOARD


Henry N. Rand
PRESIDENT

January 18, 1957

How we
used
our
1956
Sales
Dollar

\$122,594,847

For materials, supplies
and expenses



46.0¢

116,640,265

For employees' pay
and benefits



43.7¢

3,095,614

For tools wearing out
(depreciation)



1.2¢

12,633,316

For payments ordered
by Government
(taxes—excluding social security)



4.7¢

8,061,847

For dividends to stockholders



3.0¢

3,787,650

Remainder used in business



1.4¢

\$266,813,539

100.0¢

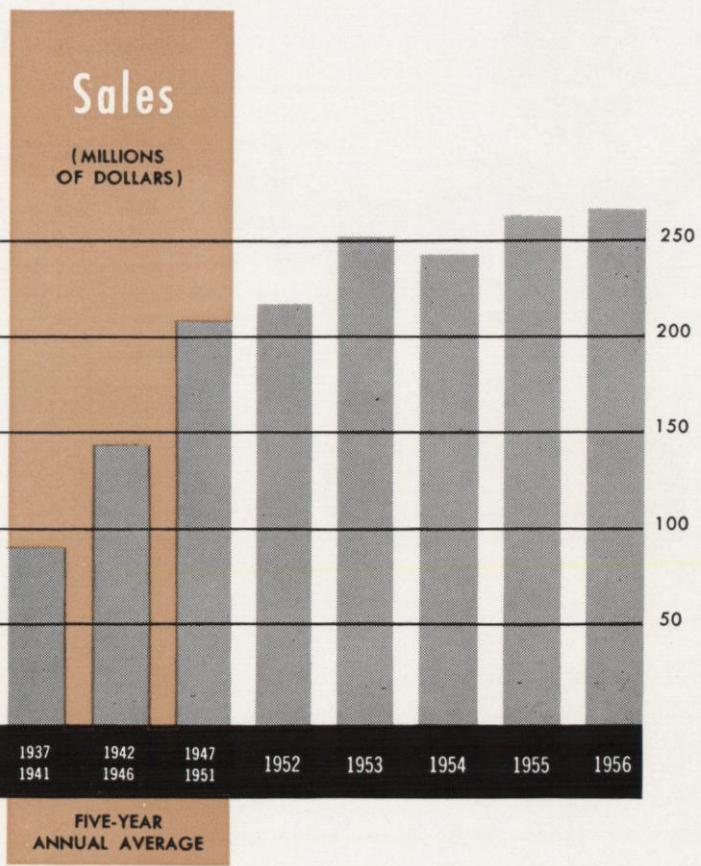
Sales

The 1956 net sales of \$266,813,539 were the largest in the Company's history. They exceeded by \$4,399,736 the previous high of \$262,413,803 in 1955.

Retail shoe sales for the country as a whole in 1956 will probably show an increase of about 5% over 1955. Because of somewhat higher prices, this indicates an increase in number of units in line with the increase in industry production which was about 2%. From this it appears that no increase occurred in retail shoe inventories during the year.

Income

Net income of \$11,849,497 was made up of normal operating net income of \$10,748,172 and two nonrecurring items; one, the value of the Company's claim for refund of excess profits taxes under Section 722 of the Internal Revenue Code, which



increased net income \$1,512,000; the other, the adjustment of The Florsheim Shoe Company's inventory to the lifo accounting method, which decreased net income \$410,675.

Total net income amounted to \$3.53 per share compared with \$3.10 in 1955. Excluding the non-recurring items, the Company's per share net income from operations amounted to \$3.20.

Dividends

On January 1, 1957, the Company paid its 183rd consecutive dividend on its common stock, completing 44 years of uninterrupted payments. The annual dividend paid in 1956 was \$2.40 per share. This continues the 60-cent quarterly rate which has been paid regularly since April 1, 1950.

Costs and Prices

Shoe prices were increased by the parent company on April 1, 1956. No other change was made in prices during the year.

Labor rates advanced 3% on April 1 as provided for in the union contracts completed in the fall of 1955 with principal employee groups. Some additional costs resulted from the increase in the legal minimum wage rate to \$1.00 per hour on March 1.

Material prices trended slowly upward during most of the year.

During the year several major moves were begun which when completed are expected to increase our efficiency in servicing customers' orders and at the same time reduce our costs of doing business. The moves are under way at this time and will take most of 1957 to complete. The non-sales functions of our general line sales divisions will be consolidated. These include accounts receivable, credit, collection, merchandising, warehousing and order filling.

As the style element in shoes increased steadily over the past 10 years, the problems of maintaining separate merchandising organizations, separate warehousing and order filling operations increased at an even greater rate. Consolidation will bring about simplification in most of the Company's operations without lessening the fashion appeal of our lines. At the same time inventory controls, procurement, production scheduling, manufacture of shoes and warehousing and order filling of finished shoes will be more efficient.

The arrival some time in early February of the new IBM 705 electronic computer will fit in nicely with the faster tempo which will prevail when these changes have been completed.

In addition to the improvement in service to our customers, there will be major benefits to the Company. One such benefit will be found in a substantial reduction in total number of pairs of finished shoes carried in our inventory without in any way

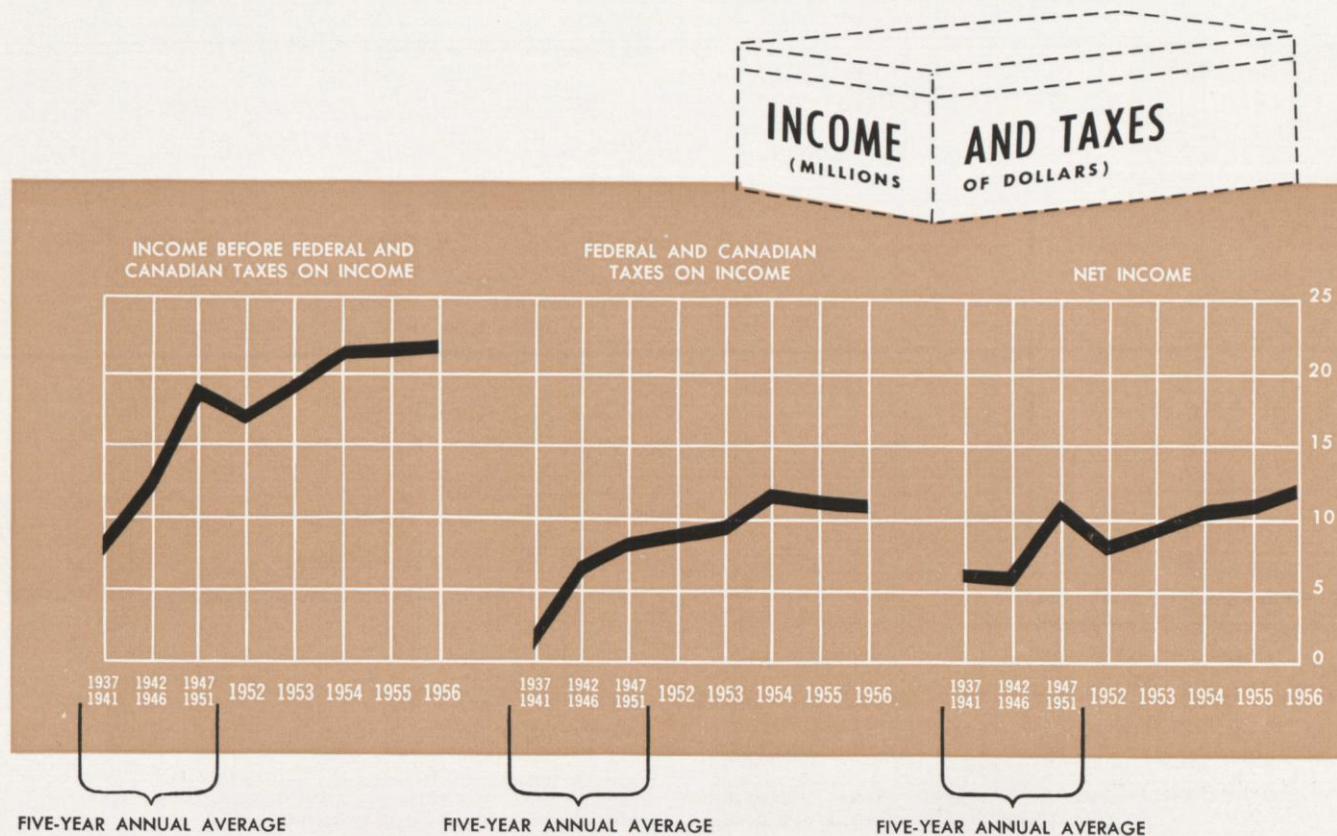
lessening our ability to serve our customers. This should reduce by millions of dollars the capital used for carrying finished shoe stocks.

There will be other major benefits resulting from substantial reductions in expenses made up of space and personnel used in connection with the handling of these stocks. Other specific savings will be found in reduction of markdown losses due to the streamlining effect of these changes.

Production

During the 1956 fiscal year our shoe factories produced 53,433,683 pairs of shoes compared with 52,313,612 in 1955. Civilian footwear production increased about 3% while military production decreased 51%, resulting in a net overall increase of 2%.

Industry production for our fiscal year is expected to show a similar percentage increase.



Our supply plants produced leather, cut soles, rubber heels and soles, cotton textiles and many other articles for use by us in the manufacture of shoes. These materials and supplies valued at \$60 million are shown in the production summary on page 18.

Inventory Evaluation

At year end 59% of our total inventory (at current values) was revalued on the basis of the last-in, first-out method. This compares with about 50% at the beginning of the year. Part of the increase in the amount of inventory carried under the lifo method resulted from the liquidation of The Florsheim Shoe Company as a corporate entity on October 31. This brought the Florsheim inventories under the lifo method resulting in a write down of \$855,573, which after federal income taxes netted \$410,675, as shown by the income statement. At

year end, inventories under the lifo method were carried at a value of approximately \$18.5 million less than current values.

Taxes

The Company's claims for refund of excess profits taxes under Section 722 of the Internal Revenue Code, the first of which was filed in 1943, were finally approved by the Joint Committee of Congress on Internal Revenue Taxation on December 20. The Tax Court of the United States, pursuant to stipulation of settlement, entered its final decision on January 14, 1957, and actual payment is expected in the very near future.

The refund plus interest thereon, less applicable federal income taxes, amounted to \$1,512,000.

The value of the claims was entered on the Company's books at the close of its 1956 fiscal year.

Organization Changes

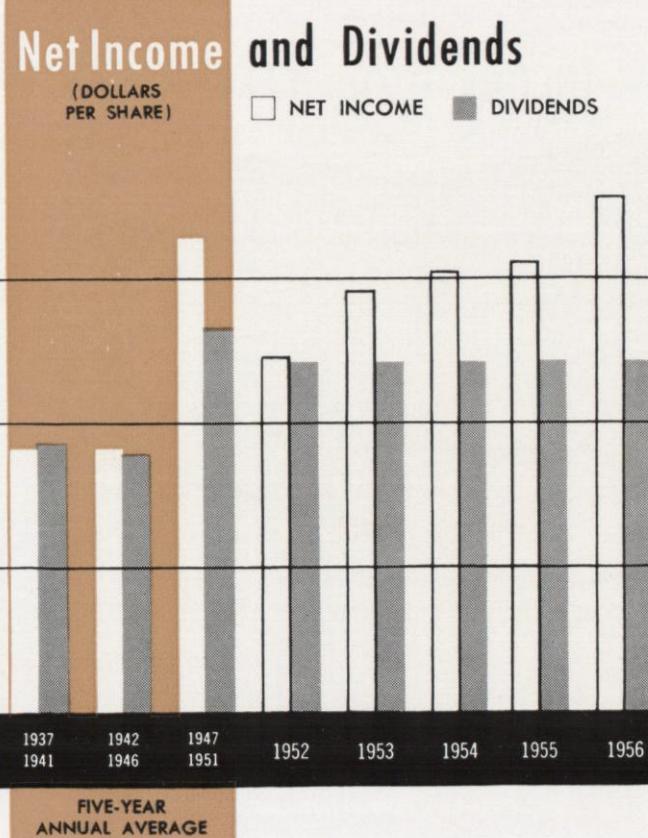
Mr. Lee C. McKinley, general manager of upper stock and miscellaneous procurement, was elected vice-president.

Mr. Norfleet H. Rand was elected to the Board of Directors and placed in charge of shoe manufacturing and merchandising. Mr. Rand was formerly manager of upper leather procurement and supply.

Mr. Edgar S. Bland, general manager of Roberts, Johnson & Rand Division, was elected to the Board of Directors.

Mr. M. R. Chambers, general merchandise manager of women's shoes for the Company's general line divisions, was elected to the newly created position of vice-president in charge of sales.

Mr. John S. Malcolm, sales manager of Savage Shoes Limited (Canadian subsidiary), was elected vice-president of that company.



Working Capital

Funds were acquired during 1956 from sources as follows:

Net income for the year	\$11,849,497
Depreciation of physical properties	3,095,614
Decrease in employees' notes receivable	320,034
Increase in minority interest in subsidiary companies	75,896
Reduction in sundry investments and deferred charges	99,806
Acquired capital surplus	1,100
	<hr/>
	\$15,441,947

These funds were distributed as follows:

Net decrease in long-term indebtedness	\$ 240,417
Dividends paid on parent company's common stock	8,061,847
Net additions to physical properties	3,349,240
Acquisition of parent company's own common stock	32,881
Increase in customers' loans receivable	673,545
Increase in excess of investment over equity in subsidiaries (net)	8,973
	<hr/>
	\$12,366,903
NET INCREASE IN WORKING CAPITAL	<hr/> <hr/> \$ 3,075,044

The net increase in working capital of \$3,075,044 came from retained earnings, net income for the year having exceeded dividends by \$3,787,650. Earnings retained by our Company in 1956 were

the largest in amount for any year since 1929 with the exception of one year. Earnings retained in the business during the past five years amounted to over \$10 million.



INTERNATIONAL SHOE COMPANY

YEARS ENDED

	1956	1955	1954	1953
NET SALES	\$266,814	\$262,414	\$246,765	\$251,028
INCOME BEFORE TAXES	22,123	21,847	21,659	19,508
FEDERAL AND CANADIAN INCOME TAXES	11,246	11,448	11,592	9,687
NET INCOME (1)	11,849 (3)	10,414	10,203	9,931
DIVIDENDS PAID	8,062	8,095	8,131	8,139
PERCENTAGE OF NET INCOME TO SALES	4.4%	4.0%	4.1%	4.0%
PER SHARE—NET INCOME (2)	\$ 3.53 (3)	\$ 3.10	\$ 3.01	\$ 2.93
PER SHARE—DIVIDENDS	2.40	2.40	2.40	2.40
CASH AND GOVERNMENT SECURITIES	\$ 8,892	\$ 10,639	\$ 10,443	\$ 11,527
RECEIVABLES	46,778	40,621	40,335	41,028
INVENTORIES	74,409	71,848	72,968	72,822
PREPAID EXPENSES	564	430	564	574
TOTAL CURRENT ASSETS	130,643	123,538	124,310	125,951
CURRENT LIABILITIES	31,253	27,223	38,704	39,608
WORKING CAPITAL	99,390	96,315	85,606	86,343
PHYSICAL PROPERTIES (NET)	37,054	36,800	35,787	33,217
OTHER ASSETS	12,416	12,121	10,152	11,335
LONG-TERM DEBT	44,415	44,655	33,552	34,958
MINORITY INTERESTS IN SUBSIDIARIES	1,228	1,152	884	900
STOCKHOLDERS' EQUITY	\$103,217	\$ 99,429	\$ 97,109	\$ 95,037
SHARES OF COMMON STOCK ISSUED	3,400,000	3,400,000	3,400,000	3,400,000

(1) After adjustment for minority interests.

(2) Based on shares issued less shares held for resale to employees.

(3) Includes nonrecurring items which increased net income \$1,101,325 or 33 cents per share.

TEN-YEAR CONSOLIDATED FINANCIAL REVIEW

NOVEMBER 30

1952	1951	1950	1949	1948	1947
(DOLLARS IN THOUSANDS)					
\$217,042	\$225,070	\$199,009	\$190,353	\$220,146	\$213,325
17,116	20,170	19,386	12,457	22,046	22,617
8,859	11,459	8,248	4,711	8,199	8,600
8,287	8,837	11,138	7,747	13,847	14,016
8,096	8,158	8,669	10,200	10,200	7,628
3.8%	3.9%	5.6%	4.1%	6.3%	6.6%
(IN DOLLARS)					
\$ 2.44	\$ 2.61	\$ 3.28	\$ 2.28	\$ 4.07	\$ 4.12
2.40	2.40	2.55	3.00	3.00	2.25
(DOLLARS IN THOUSANDS)					
\$ 23,168	\$ 6,149	\$ 4,494	\$ 5,997	\$ 4,789	\$ 12,891
34,472	26,211	36,126	28,892	33,787	27,110
59,051	58,674	47,764	47,040	51,690	43,416
976	842	742	675	696	526
117,667	91,876	89,126	82,604	90,962	83,943
25,575	23,815	21,640	17,484	25,491	19,765
92,092	68,061	67,486	65,120	65,471	64,178
23,010	22,242	22,593	23,831	23,777	18,950
8,347	5,577	5,008	3,867	5,642	5,124
30,000	2,592	2,692	2,891	2,992	—
214	213	—	—	—	—
\$ 93,235	\$ 93,075	\$ 92,395	\$ 89,927	\$ 91,898	\$ 88,252
3,400,000	3,400,000	3,400,000	3,400,000	3,400,000	3,400,000

INTERNATIONAL SHOE COMPANY

CONSOLIDATED FINANCIAL POSITION

	November 30, 1956	1955
CURRENT ASSETS:		
Cash.....	\$ 8,583,859	\$ 10,628,750
United States Government securities, at cost.....	307,847	10,000
Receivables—trade and sundry, less allowance for cash discounts and doubtful accounts.....	45,265,949	40,621,481
Inventories (Note 2).....	74,409,138	71,848,072
Net refund of prior years' excess profits taxes under Section 722 of the Internal Revenue Code.....	1,512,000	—
Prepaid insurance premiums, taxes and sundry.....	563,996	429,705
Total Current Assets.....	<u>130,642,789</u>	<u>123,538,008</u>
LESS—CURRENT LIABILITIES:		
Notes payable to banks.....	3,195,000	—
Current maturities of long-term debt.....	240,416	140,416
Accounts payable and accrued expenses.....	16,257,760	14,022,691
Employees' balances and tax withholdings.....	1,681,048	1,522,926
Federal and Canadian taxes on income.....	9,878,163	11,536,617
Total Current Liabilities.....	<u>31,252,387</u>	<u>27,222,650</u>
Net Working Capital.....	<u>99,390,402</u>	<u>96,315,358</u>
OTHER ASSETS:		
Employees' notes receivable for stock, secured by 99,034 shares and 103,932 shares of parent company's common stock.....	2,494,559	2,814,593
Customers' secured loans, deferred maturities.....	6,706,165	6,032,620
Parent company's own common stock held for resale to employees, 41,297 shares and 40,497 shares, at cost.....	1,759,676	1,726,795
Sundry investments and deferred charges.....	<u>802,483</u>	<u>902,289</u>
	<u>11,762,883</u>	<u>11,476,297</u>
PHYSICAL PROPERTIES —based on appraisal April 30, 1925, plus subsequent additions at cost, less accumulated depreciation (Note 3).....	37,053,522	36,799,896
Excess of investment over equity in subsidiaries (net).....	<u>653,020</u>	<u>644,047</u>
	<u>148,859,827</u>	<u>145,235,598</u>
DEDUCT:		
Long-term debt, less current maturities (Note 4).....	44,414,583	44,655,000
Minority interests in subsidiaries.....	<u>1,227,875</u>	<u>1,151,979</u>
	<u>45,642,458</u>	<u>45,806,979</u>
Stockholders' Equity.....	<u>\$103,217,369</u>	<u>\$ 99,428,619</u>
REPRESENTED BY:		
Common stock without nominal or par value:		
Authorized 4,000,000 shares; issued 3,400,000 shares.....	\$ 51,000,000	\$ 51,000,000
Capital in excess of stated amount.....	1,334,942	1,333,842
Retained earnings (Note 5).....	<u>50,882,427</u>	<u>47,094,777</u>
	<u>\$103,217,369</u>	<u>\$ 99,428,619</u>

See accompanying notes to financial statements.

INTERNATIONAL SHOE COMPANY

CONSOLIDATED INCOME and RETAINED EARNINGS

	<i>Years Ended November 30, 1956</i>	<i>1955</i>
Sales and other income:		
Net sales	\$266,813,539	\$262,413,803
Income from rentals and services	340,937	329,725
Interest and other income	584,433	638,085
	<u>267,738,909</u>	<u>263,381,613</u>
Deductions:		
Cost of sales, selling, general and administrative expenses (Note 7)	243,424,763	239,323,626
Interest and amortization of expense on long-term debt	1,543,858	1,485,979
Other interest and sundry charges	646,919	724,756
	<u>245,615,540</u>	<u>241,534,361</u>
Income before Federal and Canadian taxes on income	22,123,369	21,847,252
Federal and Canadian taxes on income, estimated	<u>11,245,588</u>	<u>11,448,471</u>
Proportion of net profit or <i>loss</i> of subsidiaries applicable to minority interests	<u>10,877,781</u>	<u>10,398,781</u>
	<u>129,609</u>	<u>15,225</u>
	<u>10,748,172</u>	<u>10,414,006</u>
Nonrecurring items less applicable Federal income taxes:		
Add—Refund of prior years' excess profits taxes under Section 722 of the Internal Revenue Code, including interest	1,512,000	—
Deduct—Adjustment of Florsheim Division inventories to last-in, first-out method	<u>410,675</u>	<u>—</u>
NET INCOME FOR YEAR APPLICABLE TO CAPITAL STOCK OF COMPANY	<u>11,849,497</u>	<u>10,414,006</u>
Retained earnings at beginning of year	<u>47,094,777</u>	<u>44,775,858</u>
Dividends on common stock \$2.40 per share each year	<u>58,944,274</u>	<u>55,189,864</u>
RETAINED EARNINGS AT END OF YEAR	<u>8,061,847</u>	<u>8,095,087</u>
	<u>\$ 50,882,427</u>	<u>\$ 47,094,777</u>

See accompanying notes to financial statements.

**ACCOUNTANTS'
REPORT**

TO THE BOARD OF DIRECTORS
INTERNATIONAL SHOE COMPANY:

We have examined the statement of consolidated financial position of International Shoe Company and subsidiaries as of November 30, 1956, and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial position and statement of consolidated income and retained earnings present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1956, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
December 31, 1956

NOTES to financial statements

(1) PRINCIPLES OF CONSOLIDATION:

All subsidiaries (including one Canadian) with a 51% or greater ownership are included in the consolidated financial statements in accord with established policy of the Company. Operating results from acquisition date of newly acquired subsidiaries are included in consolidated income.

Insofar as practicable, all intercompany accounts, transactions and unrealized profit in inventories have been eliminated in consolidation.

(2) INVENTORIES:

	November 30	
	1956	1955
Finished shoes.....	\$37,671,688	\$31,120,910
Shoes in process.....	3,388,758	4,552,956
Hides and leather.....	13,227,251	14,426,007
Miscellaneous materials on hand and in process.....	20,121,441	21,748,199
	<u>\$74,409,138</u>	<u>\$71,848,072</u>

Fifty-nine percent of the inventories at current values are priced at cost, last-in, first-out (lifo). The remainder of the inventories, including all miscellaneous materials and supplies, are priced at the lower of cost, first-in, first-out, or replacement market.

(3) PHYSICAL PROPERTIES:

	November 30	
	1956	1955
Land.....	\$ 3,375,588	\$ 3,431,838
Buildings and structures.....	37,761,319	39,474,275
Machinery and equipment.....	36,275,198	34,908,410
Lasts, patterns and dies.....	1	1
	<u>\$77,412,106</u>	<u>\$77,814,524</u>
Less accumulated depreciation	<u>40,358,584</u>	<u>41,014,628</u>
	<u>\$37,053,522</u>	<u>\$36,799,896</u>

Properties of Twelfth-Delmar Realty Company (net balance November 30, 1956, \$2,814,503) are pledged as collateral on mortgage notes payable to banks.

(4) LONG-TERM DEBT

LESS CURRENT MATURITIES:

	November 30 1956	1955
3½% promissory installment notes, due annually \$1,125,000, 1962 through 1981 and balance in 1982.....	\$30,000,000	\$30,000,000
3½% promissory installment note, payable \$1,500,000 annually 1958 through 1965.....	12,000,000	12,000,000
Mortgage notes payable, an obligation of Twelfth-Delmar Realty Company, payable \$8,333 monthly, and balance in 1958.....	1,908,333	2,100,000
5½% sinking fund debentures, an obligation of Savage Shoes Limited, annual sinking fund requirements \$48,750 to 1961 and \$52,500 thereafter.....	506,250	555,000
	<u>\$44,414,583</u>	<u>\$44,655,000</u>

(5) RETAINED EARNINGS RESTRICTIONS:

Retained earnings of \$28,470,720 at November 30, 1956, are restricted as to payment of cash dividends on common stock by the 3½% promissory note agreement. The note agreement also provides that no payment be made for dividends unless consolidated net working capital shall be at least \$50,000,000.

(6) STOCK OPTIONS:

Options to certain executive and administrative employees were outstanding to the extent of 29,550 shares of common stock at November 30, 1956. Such options are exercisable October 18, 1959, at \$40 per share (market price at date of grant \$41½).

(7) CERTAIN CHARGES TO OPERATIONS:

	Fiscal Year	
	1956	1955
Depreciation of physical properties.....	\$3,095,614	\$2,946,305
Maintenance and repairs.....	4,989,125	4,450,365
Taxes other than income taxes.....	5,073,713	4,805,768
Rentals of real property.....	3,775,632	3,462,400
Rentals of shoe machinery.....	2,864,582	3,453,721

- FERGUS
- KITCHENER
- PRESTON
- GALT

Headquarters of Savage Shoes Limited



Recognizing the potential in Canada, International Shoe Company acquired in September 1954, the largest, most aggressive and successful manufacturer of juvenile shoes in the Dominion, Savage Shoes Limited.

The achievements of the Savage company in the past two years more than justify the Company's decision to establish holdings in Canada. Sales by Savage have increased 20 per cent. Production facilities have been increased through the erection of a new plant and through enlargement of two other plants. Construction has begun on a new 70,000 square-foot warehouse to improve service to Savage customers. The sales staff has been increased and permanent sample rooms have been opened in Montreal and Toronto, Canada's largest cities. New lines of shoes have been added including a full range of boys' shoes and California-type casuals for teen-age girls.

A close working arrangement between Savage's manufacturing and sales divisions and their counterparts in St. Louis has been developed. Patterns, dies and techniques developed by International are made available to Savage, making for greater economies and efficiency.

Savage is currently producing 76 per cent of all juvenile Goodyear welts and 32 per cent of all juvenile stitchdowns manufactured in Canada. This, added to their other types of babies' to misses' shoes, constitutes 22 per cent of all children's shoes made in Canada, excluding slippers.

SAVAGE SHOES LIMITED

Preston, Ontario, Canada

DIRECTORS

C. Reg Kidner	Robert O. Monnig
John S. Malcolm	Henry H. Rand
Laurence M. Savage	

OFFICERS

Laurence M. Savage, President	
C. Reg Kidner, Vice-President & Sec.-Treas.	
John S. Malcolm, Vice-President	

The future looks bright for Savage Shoes. Led by progressive management and located in a fast-developing country rich in natural resources and opportunity, there is good reason to expect a steady increase in the distribution of your Company's shoes in the Canadian market.



Entrance to headquarters of The Florsheim Shoe Company in Chicago, Illinois

The Florsheim Shoe Company

A new peacetime record in the manufacture and distribution of Florsheim shoes for men was established in the fiscal year 1956.

More than half of the men's fine quality shoes produced in America are manufactured by Florsheim. To maintain its enviable position in the industry, important strides were made during the past year to keep production in pace with sales and to assure the continuance of Florsheim's high standard of quality. Florsheim buyers today find it necessary to operate in world markets to hold to these high standards. Increasing purchases in foreign markets result from the diminishing domestic supply of raw material of the grade and quality required for Florsheim.

A new manufacturing unit for men's shoes located on the northwest side of Chicago was completed in 1956. This additional unit is part of a group forming a Florsheim manufacturing center occupying half a city block.

The past year marked the first twelve-month period of full production of Florsheim shoes for

women in its new factory in St. Louis. The new plant was equipped with increased production facilities and is better situated to attract employees.

A retirement plan for Florsheim shoe workers was negotiated with the Union during 1956. This plan will not only provide security for the employees but will serve to attract younger men to the company.

While by far the major part of Florsheim's products are sold through independent dealers, the company from time to time establishes retail stores in the downtown areas of the principal cities where independent dealer distribution is not available.

These stores are located in the most attractive and most desirable locations and are recognized as outstanding examples of contemporary retail store architecture and merchandising. The interior furnishings and fixtures as well as the exteriors have established standards for current shoe retail store operations. These stores play an important part in assisting in the distribution of large quantities of Florsheim products throughout the United States.



BOARD OF MANAGERS

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HAROLD M. FLORSHEIM	J. LEE JOHNSON	HENRY H. RAND
IRVING S. FLORSHEIM	WELDON P. MAGEE	NORFLEET H. RAND
CLIFFORD P. FOLEY	MARTIN F. MAHER	JOHN K. RIEDY
BYRON A. GRAY	ROBERT O. MONNIG	CLARENCE W. SCHAAF
JOSEPH B. STANCLIFFE		JOHN W. WALLACE

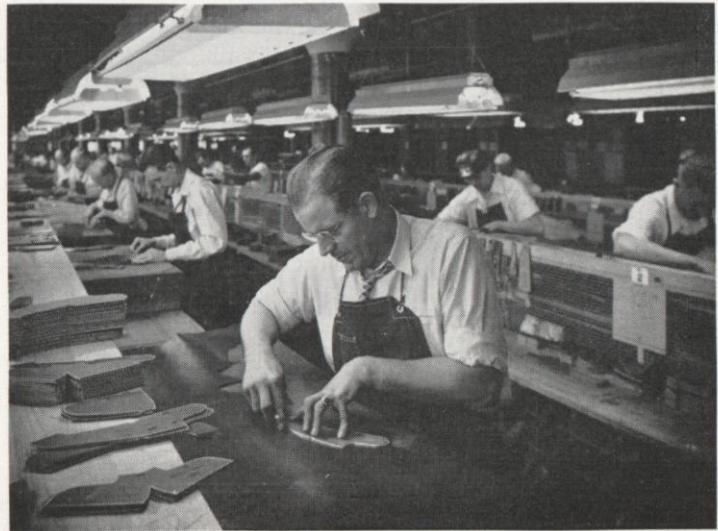
OFFICERS

IRVING S. FLORSHEIM	<i>Chairman of the Board</i>
HAROLD M. FLORSHEIM	<i>President</i>
C. W. SCHAAF	<i>Vice-President & Secretary</i>
J. B. STANCLIFFE	<i>Vice-President</i>
S. F. EAGAN	<i>Vice-President</i>
O. M. PICK	<i>Vice-President</i>
J. W. WALLACE	<i>Treasurer</i>
W. P. MAGEE	<i>Assistant Vice-President</i>
W. H. ARMSTRONG	<i>Assistant Vice-President</i>
C. P. FOLEY	<i>Assistant Vice-President</i>
B. B. CLAYBURN	<i>Assistant Secretary</i>

Interior view of one of the Florsheim retail stores



Skilled craftsmen cut Florsheim shoes by hand





Before applying flexing, abrasion and other tests, all rubber heel and sole samples are placed in an aging oven which produces the effect of 3 years' natural aging within 24 hours.



Careful leather sorting for weight, texture and color prior to cutting climaxes a series of tests and checks beginning with hide selection and continuing through the entire tanning process.

PRODUCTION SUMMARY

Our Company's principal production is shoes. During 1956 we produced:

SHOES

For Men and Boys	Pairs	17,162,002
For Women and Girls	Pairs	16,240,422
For Children	Pairs	18,627,428
House Slippers	Pairs	1,403,831
	Total	53,433,683

Consisting principally of this type of production our sales amounted to \$266,813,539

However, our Company carries on a vast amount of other production of materials and supplies used principally by us in the manufacture of shoes. During 1956 we produced:

MATERIALS FOR SHOE UPPERS

Leather for Uppers (including Linings) from Cattle Hides and Lambskins (Calfskins tanned under contract not included)	Feet	64,547,370
Cloth for Linings from Cotton	Yards	9,133,277

This type of production had an aggregate value of \$20,381,783

MATERIALS FOR SHOE BOTTOMS

Soles, of Leather (some shoes take several soles)	Pairs	37,558,438
Soles, of Rubber	Pairs	15,946,985
Counters, of Leather	Pairs	7,056,983
Heels, of Leather (some shoes take leather and rubber heels)	Pairs	4,575,527
Heels of Rubber	Pairs	18,339,873
Leather, for soles from Cattle Hides	Pounds	18,402,129
	Feet	4,715,597
	Yards	16,911,125

This type of production had an aggregate value of \$31,013,440

OTHER MATERIALS AND SUPPLIES used in shoes and for fastening, making and packaging shoes

Boxes, Box Toes, Cartons, Cements, Chemicals, Patterns and others	Not Itemized
---	--------------

This type of production had an aggregate value of \$9,230,217

Total value of production — shoes and materials and supplies

\$327,438,979



Oil and grease content affects the stretch, wear, texture and finish of upper leather. Shown here is a grease extraction test, one of many tests used to control quality in our tannery products.

One of the most important factors in long-term consumer acceptance of International Shoe Company's products is uniform quality. Pictured on these pages are just a few of the many inspections and tests made to maintain our high standards.



The uniformity analyzer shown here checks yarn for variation in weight per unit length at our cotton mill where cloth is woven for shoe linings.



Good fit and long wear are qualities vital in children's shoes. These qualities are assured through many fit and wear tests conducted with the cooperation of homes for children.



Lasts are the key to good-fitting shoes. New lasts are rigidly inspected and all measurements carefully checked before being released for the manufacture of shoes.

PLANT FACILITIES

The Company's Principal Plant Facilities include:

MANUFACTURING PLANTS

59 SHOE FACTORIES

Manufacturing Men's, Women's and Children's shoes.

3 SOLE CUTTING PLANTS

Producing leather outsoles, insoles, midsoles, counters and heels.

2 RUBBER PLANTS

Manufacturing rubber soles and heels.

1 COTTON TEXTILE MILL

Producing cloth for shoe linings.

1 WELT MANUFACTURING PLANT

Producing leather welting.

1 CHEMICAL PLANT

Producing finishes, waxes, polishes and cements.

1 BOX PLANT

Producing cartons and containers.

1 WOOD HEEL COVERING PLANT

Covering and finishing wood heels.

1 LAST REMODELING PLANT

Remodeling lasts.

1 FINDINGS PLANT

Producing stripping, piping, bows, box toes and other shoe findings.

1 DISPLAY SHOP

Producing display items for shoe stores.

1 LEATHER FIBRE PRODUCTS PLANT

Producing leather fibre materials for counters and other shoe components.

TANNERIES

5 UPPER LEATHER TANNERIES

Tanning shoe upper leather.

2 SOLE LEATHER TANNERIES

Tanning shoe sole leather.

SUPPLY PLANTS

1 UPPER LEATHER SUPPLY PLANT

Warehousing, grading and distributing upper leather to shoe factories.

1 CENTRAL SUPPLY PLANT

Distribution center for shoe findings, materials and supplies.

1 CENTRAL MACHINE SHOP

Repairing and building machinery and equipment.

WAREHOUSES

8 FINISHED SHOE WAREHOUSES

Warehousing, order filling and shipping of finished shoes.

SALES DIVISIONS

ST. LOUIS

ACCENT SHOE CO.
CONFORMAL FOOTWEAR CO.
CONTINENTAL SHOEMAKERS

EXPORT

FRIEDMAN-SHELBY
GREAT NORTHERN SHOE CO.
HAMPSHIRE SHOE CO.

HY-TEST

PENNANT SHOE CO.

PETERS

QUEEN QUALITY SHOE CO.
ROBERTS, JOHNSON & RAND
SENTINEL

VITALITY SHOE CO.

WINTHROP SHOE CO.

CHICAGO

THE FLORSHEIM SHOE CO.

MANCHESTER, N. H.
SUNDIAL SHOE CO.

PRESTON, ONTARIO, CANADA
SAVAGE SHOES LIMITED

LOCATION OF SHOE FACTORIES AND SUPPLY PLANTS

MISSOURI

Belle	Mexico
Bland	Perryville
Cape Girardeau	Poplar Bluff
De Soto	Richland
Dexter	St. Clair
Eldon	St. James
El Dorado Springs	Ste. Genevieve
Fulton	St. Louis
Hamilton	Salem
Hannibal	Sikeston
Hermann	Sullivan
Houston	Sweet Springs
Jackson	Vandalia
Jefferson City	Washington
Kirksville	West Plains
Marshall	Windsor

ILLINOIS

Anna	Mt. Vernon
Chester	Oliney
Chicago	Quincy
Evansville	Springfield
Flora	Steeleville
Jerseyville	

ARKANSAS

Batesville	Russellville
Conway	Searcy
Malvern	

KENTUCKY

Hopkinsville	Paducah
--------------	---------

TEXAS

Bryan

ONTARIO, CANADA

Fergus	Kitchener
Galt	Preston

LOCATION OF TANNERIES

South Wood River, Illinois
St. Louis, Missouri
Manchester, New Hampshire
Philadelphia, Pennsylvania
Bolivar, Tennessee
Marlinton, West Virginia

Plant Facilities

Late in October the Company completed the re-layout and modernization of its Marlinton, West Virginia, sole leather tannery at a cost of \$185,000. This program which was designed to improve the quality of production and lower operating costs included the extension of the beam house, installation of new fleshing equipment, wash drums and lighting facilities. Operations in the renovated building were resumed in November.

During the year the Company closed two of its smaller plants—Cedar Street factory in Poplar Bluff, Missouri, and Bolivar Street factory in Jefferson City, Missouri. Cedar Street was opened in 1941 and used during World War II for the production of military footwear. During the past ten years it has produced shoes of several different types. The production of both plants has been absorbed by other factories which can produce these shoes on a more efficient basis. At year end shoe factories operated by the Company numbered fifty-nine.

The Company purchased from the United Shoe Machinery Corporation additional quantities of leased shoemaking machines which were in active use in our plants at a cost of \$1,335,000. Total purchases since such machinery was offered for sale by United in mid-1955 have amounted to \$2,765,000.

The softball team of the Popular Bluff, Missouri, shoe factory represents one of the varied activities sponsored by employee recreation units.



Ira Mounts, plant superintendent, accepts a safety award on behalf of the Windsor, Mo., shoe factory for its outstanding safety record.

Our People

Our Company's capable working force—36,000 men and women—did a good job in 1956. By earnest and intelligent application to a great multiplicity of individual tasks, all of them contributed to the year's achievement.

Wage rates were approximately 3 per cent higher than in 1955 and total wages paid were the highest in the Company's history.

Many of our employees and their families benefited materially from the disability and group life insurance programs.

The Company-sponsored recreational programs continue to grow and are participated in enthusiastically by a large majority of our employees and their families. The recreational units, which provide year-round social and recreational activities, are organized and maintained by the employees themselves on an entirely voluntary basis.

The safety record of our plants for the year was well above the industry as a whole due to the thoughtfulness and cooperation of ISCO employees.

The employees of our Windsor, Missouri, shoe factory have the enviable record of having operated almost four years or 2½ million man hours without a lost time accident. In recognition of this outstanding record a plaque was presented to the plant by the Liberty Mutual Insurance Company.

On April 1, 1956, the Company inaugurated a noncontributory pension plan for its shoe salesmen—believed to be the first of its kind in the shoe industry.

Labor Agreements

The Company's principal labor agreements which became effective October 3, 1955, are for a two-year period and consequently there were no major contract negotiations during our 1956 fiscal year. The present contracts provide that the Company will submit to the unions a plan for employee pensions predicated on the payment into a pension fund of three per cent of the gross pay received by the covered employees. If an agreement on pensions is reached, the present contracts will be extended for a third year beginning October 1, 1957.

Company representatives are working with consulting actuaries to develop the most acceptable plan for discussion in the near future. It is hoped that this year's labor-management harmony will establish a pattern for many years.



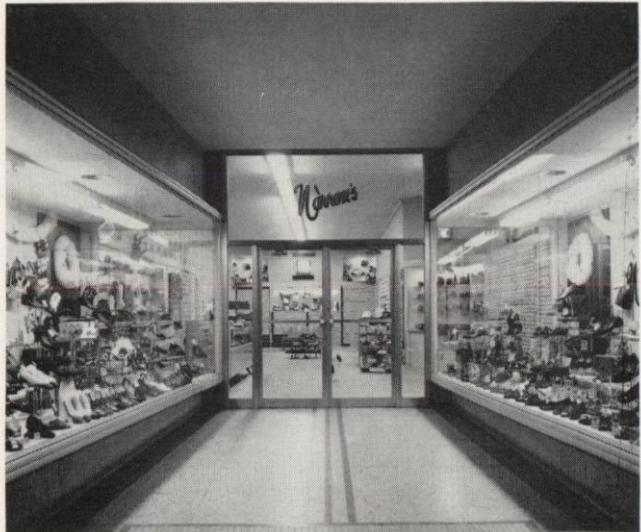
Window-trimming workshops received much dealer attention at the 1956 retail sales clinics

Plant Communities

The Company continued to participate in the community life of the towns in which our plants are located. Company representatives worked closely with local business and community leaders for the success of such civic affairs as business-education day, local celebrations, fairs and other worthy projects. These activities maintain good understanding between townspeople and our Company.

During the year special tributes were paid to the Company in several factory towns. Large celebra-

Two of the seventy-six retail outlets opened in 1956 under the Shoenterprise plan



tions commemorated many years of harmonious and mutually beneficial relationships between our Company and the townspeople. West Plains, Missouri, celebrated our Company's presence for ten years; Anna, Illinois, for twenty-five years and Cape Girardeau, Missouri, for fifty years.

Our Customers

Over 900 retail shoe store owners and their sales personnel from 45 states and the District of Columbia attended our Company's three retail merchandising sales clinics held this summer in New York, St. Louis and Los Angeles.

Panel discussions and workshop sessions devoted to sales training, window and interior displays, advertising and sales promotions and marketing conditions highlighted the three-day meetings. The purpose of these meetings is to aid the merchants in meeting and overcoming problems in today's highly competitive market.

The Shoenterprise Corporation, which was organized in 1950, continues to lend financial aid to men with shoe retailing experience to set up independently owned and operated stores in locations where the Company's distribution is inadequate. During the past year seventy-six retail outlets were opened under the Shoenterprise plan, bringing to almost five hundred the number of stores that have been opened since Shoenterprise was organized. Shipments to Shoenterprise stores during our fiscal year 1956 exceeded \$18 million.

International Shoe Company has always placed service to its customers foremost along with quality of its product. This customer service takes many forms but is best exemplified by the work of the Merchants Service Department. This department was organized in 1930 as a retail consulting division of International Shoe Company. Its only purpose is to aid our customers to increase their share of the retail shoe business in their trading area and thus become more successful retail merchants.

The dealer aids of Merchants Service include financial planning, accounting procedures, stock control, advertising and promotions. Field men from the Merchants Service Department are avail-

DETAIL OF STOCK OWNERSHIP NOVEMBER 30, 1956

CLASSIFICATION	Holders	%	Shares	%
Women	5,644	38.6	1,160,197	34.1
Men	4,558	31.2	1,115,474	32.8
Joint Accounts	3,025	20.7	210,002	6.2
Fiduciaries	908	6.2	518,271	15.2
Investment Trusts	23	.2	85,104	2.5
Companies	73	.5	80,480	2.4
Insurance Companies	11	.1	3,000	.1
Churches—Hospitals—Universities—Charities	116	.8	40,596	1.2
Brokers	250	1.7	186,876	5.5
TOTAL	14,608		3,400,000	
SHARES	1-25	26-50	51-100	101-200
HOLDERS	5,507	3,214	3,126	1,066
	37.7%	22.0%	21.4%	7.3%
				11.6%

able as retail consultants at all times at no cost to the merchant.

Stockholders

The owners of the Company's 3,400,000 shares of common stock numbered 14,608 at year end, the highest number of shareholders in the Company's history. This was an increase of 987 compared with a year ago and was the thirtieth consecutive year in which ownership of the Company has broadened.

The Company's stock is widely distributed geographically, being held in all forty-eight states and in eleven United States possessions and foreign countries.

The accompanying chart shows an analysis by types of stockholders and amount of holdings at year end.

Roberts, Johnson & Rand
Sales Division

TrimTred

The
RAND
Shoe

Randcraft
SHOES AT YOUNG MEN'S PRICES

PRE-TESTED
Polly Parrot
SHOES FOR BOYS AND GIRLS



Friedman-Shelby Sales Division

Friedman-Shelby

KINGSWAY



Grace Walker

Sundial Sales Division

Sundial

IN CANADA
Savage Shoes Limited

Savage Shoes

PRINCIPAL ADVERTISED BRANDS -

The
Florsheim Shoe
Company



WESBORO

"THE VERY NEWEST IN YOUNG MEN'S SHOES"



Peters Sales Division

Velvet Step



CITY CLUB
SHOES FOR MEN

Specialty Divisions

Vitality
SHOES

Conformal
SHOES



Hi-Tech
SHOES

Queen Quality
SHOES

WINTHROP
SHOES



.... AND REPRESENTATIVE STYLES



The styles illustrated are typical
of the 5,000 patterns featured
in our various lines.



*World's largest
manufacturer
of men's,
women's and
children's
shoes*